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## Bank Reconciliation Statement

### Concept Explanation:

Bank Reconciliation Statement (BRS) is a statement prepared to reconcile the bank balance as per the Cash Book with the balance as per the Pass Book or bank statement. It shows the items of difference between the two accounts to explain discrepancies.

### Key Definitions / Features:

- **Cash Book:** The book maintained by the business recording all cash and bank transactions.
- **Pass Book:** A statement of account provided by the bank to its account holders.
- **Bank Reconciliation Statement:** A statement prepared to identify and explain differences between the Cash Book and Pass Book balances.

### Illustrative Example:

Suppose the Cash Book shows a bank balance of ₹50,000, but the Pass Book shows ₹48,000. The BRS will identify reasons such as cheques issued but not yet presented, bank charges, or direct deposits to reconcile these balances.

### Practice Set:

- *Level 1 – Easy:* Define Bank Reconciliation Statement and state its purpose.

- *Level 2 – Moderate:* List three causes of difference between Cash Book and Pass Book balances.
- *Level 3 – Challenging:* Prepare a Bank Reconciliation Statement given the Cash Book and Pass Book balances with specific transactions.

### Answer Key:

- *Level 1:* Bank Reconciliation Statement is a statement prepared to reconcile the bank balance as per Cash Book with the balance as per Pass Book by showing the items of difference.
- *Level 2:* Causes include timing differences, transactions recorded only in one book, and errors by the bank or business.
- *Level 3:* (Sample solution would include stepwise adjustments to reconcile balances.)

### Quick Reference:

BRS = Cash Book Balance ± Adjustments = Pass Book Balance

### Glossary:

- **Cheque:** A written order directing a bank to pay money.
- **Dishonoured Cheque:** A cheque that the bank refuses to pay.
- **Bank Charges:** Fees charged by the bank for services.

## Causes of Difference in Bank Balances

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### Concept Explanation:

Differences between the bank balance as per Cash Book and Pass Book arise due to timing differences in recording transactions or errors committed by the business or bank.

### Key Definitions / Features:

- **Timing Differences:** Transactions recorded at different times in Cash Book and Pass Book.
- **Errors:** Mistakes made either by the business or the bank in recording transactions.

### Illustrative Examples:

- Cheque issued but not yet presented for payment.
- Bank charges debited by the bank but not recorded in Cash Book.
- Interest credited by the bank but not recorded in Cash Book.

### Practice Set:

- *Level 1 – Easy:* State two causes of difference in bank balances.
- *Level 2 – Moderate:* Explain how timing differences cause discrepancies.
- *Level 3 – Challenging:* Identify errors that can cause differences and how to detect them.

### Answer Key:

- *Level 1:* Timing differences and errors.
- *Level 2:* Transactions like cheques issued or deposited are recorded at different times causing temporary differences.
- *Level 3:* Errors include wrong amounts recorded, omission of entries; detected by comparing Cash Book and Pass Book.

### Quick Reference:

Causes = Timing Differences + Errors

### Glossary:

- **Timing Difference:** Delay in recording transactions in either book.
- **Error:** Incorrect or omitted entries.

## Types of Differences

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### Concept Explanation:

Differences between Cash Book and Pass Book balances arise due to transactions recorded only in one book or errors.

### Key Definitions / Features:

- **Transactions shown in Cash Book only:** Cheques issued but not presented, cheques deposited but not credited, dishonoured cheques.
- **Transactions shown in Pass Book only:** Interest credited or debited by bank, bank charges, direct deposits, payments made by bank, bills collected or dishonoured.
- **Errors:** Mistakes by accountant or bank causing differences.

### Illustrative Examples:

- Cheque issued ₹5,000 not yet presented.
- Bank charges ₹200 debited by bank but not recorded in Cash Book.
- Interest credited ₹100 by bank not recorded in Cash Book.

### Practice Set:

- *Level 1 – Easy:* List two transactions shown only in Cash Book.
- *Level 2 – Moderate:* Explain transactions shown only in Pass Book.

- *Level 3 – Challenging:* Describe how errors affect bank balances.

### Answer Key:

- *Level 1:* Cheques issued but not presented, cheques deposited but not credited.
- *Level 2:* Interest credited, bank charges, direct deposits by customers.
- *Level 3:* Errors cause incorrect balances; detected by reconciliation.

### Quick Reference:

Differences = Transactions in one book only + Errors

### Glossary:

- **Dishonoured Cheque:** Cheque returned unpaid by bank.
- **Bank Charges:** Fees deducted by bank.

## Need for Preparation of Bank Reconciliation Statement

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### Concept Explanation:

Preparation of BRS is necessary to verify the accuracy of Cash Book entries, track cheques sent for collection, detect errors, and prevent embezzlement.

### Key Definitions / Features:

- Checks accuracy of Cash Book entries.
- Monitors clearance of cheques.
- Detects errors in Cash Book or Pass Book.
- Discourages embezzlement by regular reconciliation.

### Illustrative Example:

If a cheque issued is delayed in clearance, BRS helps identify the delay and take corrective action.

### Practice Set:

- *Level 1 – Easy:* State two reasons for preparing BRS.
- *Level 2 – Moderate:* Explain how BRS helps detect errors.
- *Level 3 – Challenging:* Discuss the role of BRS in preventing fraud.

### Answer Key:

- *Level 1:* To check accuracy and track cheques.
- *Level 2:* By comparing Cash Book and Pass Book, errors are identified.
- *Level 3:* Regular reconciliation discourages staff from embezzlement.

### Quick Reference:

BRS ensures accuracy, error detection, and fraud prevention.

### Glossary:

- **Embezzlement:** Theft or misappropriation of funds.

## Steps in Preparation of Bank Reconciliation Statement

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### Concept Explanation:

The preparation of BRS involves two main steps: comparing the bank column of Cash Book with Pass Book to find differences, and then preparing the statement to reconcile balances.

### Key Definitions / Features:

- **Step 1:** Compare bank column of Cash Book with Pass Book to identify differences such as unpresented cheques, uncredited deposits, bank charges, etc.
- **Step 2:** Prepare Bank Reconciliation Statement starting either with Cash Book balance or Pass Book balance and adjust for differences to find the other balance.

### Illustrative Example:

Starting with Cash Book balance ₹40,000, add uncredited deposits ₹5,000, subtract unpresented cheques ₹3,000, and bank charges ₹500 to find Pass Book balance.

### Practice Set:

- *Level 1 – Easy:* What is the first step in preparing BRS?
- *Level 2 – Moderate:* Explain how to prepare BRS starting with Cash Book balance.
- *Level 3 – Challenging:* Prepare a BRS given specific transactions and balances.

### Answer Key:

- *Level 1:* Compare bank column of Cash Book with Pass Book.
- *Level 2:* Start with Cash Book balance, add items not recorded, subtract items not yet cleared to find Pass Book balance.
- *Level 3:* (Detailed solution with adjustments and final balance.)

### Quick Reference:

$BRS = \text{Starting Balance} \pm \text{Adjustments} = \text{Other Book Balance}$

## Glossary:

- **Unpresented Cheque:** Cheque issued but not yet presented to bank.
- **Uncredited Deposit:** Cheque deposited but not yet credited by bank.

## Bank Reconciliation Statement Format

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### Concept Explanation:

The BRS format helps reconcile the bank balance as per Cash Book with the Pass Book balance by adding or subtracting specific items.

### Key Definitions / Features:

- Start with bank balance as per Cash Book or Pass Book.
- Add items not recorded in starting book but recorded in other.
- Subtract items recorded in starting book but not in other.
- Adjust for errors made by bank or business.
- Final balance matches the other book's balance.

### Illustrative Examples:

Images provided show stepwise formats and examples of BRS with adjustments for cheques, bank charges, interest, and errors.

### Practice Set:

- *Level 1 – Easy:* What is the purpose of the BRS format?
- *Level 2 – Moderate:* Explain the steps to prepare BRS using the format.
- *Level 3 – Challenging:* Prepare a BRS using the given format and transactions.

### Answer Key:

- *Level 1:* To reconcile bank balances by adjusting differences.
- *Level 2:* Start with one balance, add and subtract items to find the other balance.
- *Level 3:* (Detailed solution with format and calculations.)

### Quick Reference:

BRS Format = Starting Balance + Additions - Deductions = Other Balance

## Glossary:

- **Adjustment:** Addition or deduction made to reconcile balances.

## Key Terms

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**Pass Book:** A statement of account provided by the bank to its account holders.

## Causes of Difference in Cash Book and Pass Book Balances:

- **Timing Difference:** Delay in recording transactions.
- **Transactions:** Items recorded only in one book.
- **Errors:** Mistakes by bank or business.

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